

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 STR-01 AID-05 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 INT-05 DODE-00 PM-03

H-01 L-02 NSC-05 PA-01 PRS-01 SS-15 NSCE-00 SSO-00

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FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC IMMEDIATE 7752

INFO AMCONSUL RIO DE JANEIRO

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PASS TREASURY FOR BUSHNELL (OASIA)

PASS COMMERCE FOR HOSTLER AND JASPER

E.O.11652: N/A

TAGS: EFIN, BR

SUBJECT: TERMS OF EXIMBANK FINANCING OF BRAZIL'S PHASE III OF
STEEL EXPANSION PROGRAM

REF: BRASILIA 0717

1. SUMMARY: FINANCE MINISTRY AND SIDERBRAS OFFICIALS
HAVE INFORMED EMBASSY THAT GOB IS PREPARED TO CONSIDER
CHANGING ITS FINANCING REQUIREMENTS (15-YEAR TERMS) TO
MEET EXIMBANK MATURITY LIMITS AND ASSURE US PARTICIPATION
IN PHASE III OF BRAZIL'S STEEL EXPANSION PROGRAM. WHILE
CHANGE IS BY NO MEANS CERTAIN, FINANCE MINISTER SIMONSEN
IS REPORTEDLY PREPARED TO SUPPORT REDUCTION IN TERMS ON
THE BASIS OF EXIMBANK'S GUIDELINES. ACTION REQUESTED:
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THAT EXIMBANK PROVIDE EMBASSY WITH GUIDANCE ON TERMS IT
WOULD BE PREPARED TO OFFER ON PHASE III FINANCING WHICH

WOULD BE PASSED ON TO GOB OFFICIALS. END SUMMARY.

2. FOLLOWING THE VISIT OF THE US STEEL INDUSTRY TASK FORCE TO BRAZIL, THE EMBASSY HAS BEEN TRYING TO ASCERTAIN THE EXACT STATUS OF THE 15-YEAR TERM REQUIREMENTS FOR THE FINANCING OF PHASE III MENTIONED BY SIDERBRAS OFFICIALS TO THE US GROUP (SEE REFTEL, PARA G) AND WHETHER THERE IS ANY FLEXIBILITY FOR CHANGING THESE TERMS IN ORDER TO MEET EXIMBANK LENDING TERMS.

3. ARY PINTO, FINANCE MINISTER SIMONSEN'S INTERNATIONAL ECONOMIC ADVISOR, IN RESPONSE TO AN EARLIER INQUIRY, INFORMED THE EMBASSY'S FINANCIAL ATTACHE LAST WEEK THAT BRAZIL IS VERY MUCH INTERESTED IN HAVING US SUPPLIERS PARTICIPATE IN THE BIDDING FOR PHASE III AND THAT THE FINMIN IS PREPARED TO CONSIDER DECREASING TERM REQUIREMENTS TO MEET EXIMBANK'S LIMITS IN ORDER TO ASSURE US PARTICIPATION. HE SAID, HOWEVER, THAT BEFORE THE FINMIN CAN PROPOSE A REDUCTION IN TERMS WITHIN THE GOB, IT WOULD LIKE TO HAVE SOME GUIDANCE ON WHAT KIND OF TERMS EXIMBANK WOULD BE PREPARED TO OFFER. PINTO SAID MOST OF THE OTHER SUPPLIERS HAVE TOLD THE BRAZILIANS THAT THEY ARE PREPARED TO MATCH EXIMBANK TERMS AND WOULD BE VERY RELUCTANT TO OFFER LONGER MATURITIES.

4. IN A SEPARATE CONVERSATION, CYRO CURY, WHO IS ON THE STAFF OF THE INTERNATIONAL DIVISION OF THE MINISTRY OF FINANCE AND WHO IS PLAYING A KEY ROLE IN FORMULATING IMPORT POLICY THIS YEAR AS HEAD OF THE IMPORT COMMISSION (COMISSAO DE COMPRAS), CONFIRMED PINTO'S COMMENTS ABOUT THE POSITION OF OTHER SUPPLIERS AND SAID HE HAD DISCUSSED THIS MATTER PERSONALLY WITH MINISTER SIMONSEN. HE REPORTED THAT SIMONSEN IS PREPARED TO SUPPORT DECREASING THE TERMS TO MEET EXIMBANK'S LIMITS. CURY ALSO SAID THAT IF IT BECOMES DIFFICULT (POLITICALLY) TO AMEND THE EXISTING RULES, WHICH ARE SET OUT IN A MINISTRY OF FINANCE ORDINANCE (PORTARIA NO. 6), THE MINFIN WOULD TRY TO ACHIEVE THE SAME OBJECTIVE BY SOME OTHER MEANS (SUCH AS MAKING A SPECIFIC EXCEPTION FOR PHASE III).

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5. WITH RESPECT TO OTHER SUPPLIERS, CURY SAID GERMANY, FRANCE, UK AND JAPAN HAVE EXPRESSED WILLINGNESS TO GO UP TO 13-15 YEARS, BUT WOULD DO SO ONLY IF THE US AGREES TO PROVIDE SIMILAR TERMS.

6. ECON COUNSELOR SUBSEQUENTLY RAISED SUBJECT WITH AMBASSADOR CABRAL DE MELLO, CHIEF OF ECONOMIC DEPARTMENT, AND WITH DR. CARLOS HECTOR MIRANDA DE FARIA, SIDERBRAS FINANCIAL DIRECTOR, STRESSING THAT, IN LIGHT OF INFORMATION

AVAILABLE TO EMBASSY, IT WAS AT BEST HIGHLY PROBLEMATIC (PROBABLY IMPOSSIBLE) THAT US COULD MEET TWELVE-YEAR REPAYMENT TERMS. HECTOR MIRANDA CONCEDED THAT AUSTRIA (OSTERREICHISCHE KONTROLL BANK) WAS THE ONLY COUNTRY COMMITTED TO PROVIDE 12- YEAR REPAYMENT TERMS BEGINNING AT TIME OF COMMISSIONING (IN SUPPORT, HE SHOWED COUNSELOR AUSTRIAN BANK'S LETTER OF COMMITMENT). THE UK, FRANCE AND JAPAN HAD OFFERED 10-YEAR TERM WITH THE PROVISIO THAT THEY WOULD BE WILLING TO GO TO TWELVE IF US PREPARED TO DO SO. FRG, WITH ITS SPECIAL EXTERNAL SURPLUS PROBLEM HAD FIRMLY RULED OUT GOING BEYOND 10 YEARS. EXIM POLICY, THEREFORE, WOULD BE CRITICAL: ON BASIS OF DR. BARBOSA'S HIGHLY ENCOUAGING CONVERSATIONS IN WASHINGTON LASH FALL, SIDERBRAZS CONTINUED TO BE HOPEFUL THAT EXIM WOULD BE ABLE TO WORK OUT FINANCING PACKAGE RESPONSIVE TO BRAZILIAN REQUIREMENTS.

7. IN AN ASIDE, HECTOR MIRANDA IMPLIED CONSIDERATION WAS BEING GIVEN IN GOB TO HAVING SIMONSEN TAKE UP THIS MATTER DIRECTLY WITH SECRETARY SIMON AND CHARI AN CASEY. CABRAL DE MELLO, IN A SIMILAR ASIDE, IMPLIED THAT AMONG TOP PRIORITIES OF THE TWO NEW BRAZILIAN AMBASSADORS IN LONDON AND PARIS, ROBERTO CAMPOS AND DELFIM NETTO, WAS THE FINANCING OF STEEL EXPANSION PROGRAM, WHICH THEY WOULD PUSH AT HIGHEST LEVELS OF FRENCH AND BRITISH GOVERNMENTS. A SIMILAR APPROACH, IT APPEARS, WAS MADE EARLIER BY SIMONSEN TO MINISTER FOURCADE OF FRANCE.

8. HECTOR MIRANDA CONFIRMED THAT THE GOB WAS STUDYING THE POSSIBILITY OF CHANGING THE IMPLEMENTING REGULATION FOR DECREE-LAW NO. 37 AND DECREE-LAW NO. 61.574 WHICH IMPOSE FULL TARIFFS ON FIREIGN SUPPLIERS NOT REPEAT NOT MEETING THE 15 YEAR TERMS, WHICH CURRENTLY GIVES DOMESTIC BRAZILIAN SUPPLIERS A VERY LARGE COMPETITIVE EDGE OVER FOREIGN COMPETITION. HE STRESSED LIMITED OFFICIAL USE
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THAT THE LEGAAL TECHNICAL FEASIBILITY OF CHANGING THE 15 YEAR REQUIREMENT BY AMENDMENT OF THE IMPLEMENTING REGULATIONS REMAINED AN OPEN QUESTION AND THAT AMENDMENT OF THE DECREE-LAWS THEMSELVES (WHICH WOULDHAVE TO BE DONE AT THE PRESIDENTIAL LEVEL AND AFFECT MANY OTHER INDUSTRIES) WOULD BE VERY DIFFUCULT. HECTOR MIRANDA ALSO SAID THAT USIMINAS WAS NOW APPLYING TO EXIM FOR A PRELIMINARY COMMITMENT IN CONNECTION WITH THE PROCUREMENT OF THE FIRST OXYGEN PLANT.

9. EMBASSY REALIZES THAT IT MAY BE DIFFICULT FOR EXIMBANK TO STIPULATE IN ADVANCE ON WHAT TERMS IT WOULD FINANCE PHASE III PURCHASES IN THE US. HOWEVER, GIVEN THE CRITICAL IMPORTANCE OF ADEQUATE FINANCIAL TERMS TO ANY US PARTICIPATION IN PHASE III, EMBASSY RECOMMENDS THAT EXIMBANK, AND OTHER INTERESTED WASHINGTON AGENCIES, PROVIDE, IF AT ALL POSSIBLE, THE APPROPRIATE GUIDANCE ON TERMS WHICH, WE WOULD HOPE, WOULD RESULT IN GOB'S CHANGING ITS CURRENT RULES TO MEET THESE LIMITS.

10. WE ALSO RECOMMEND THAT EMBASSIES IN OTHER DEVELOPED COUNTRIES, WHICH ARE COMPETING WITH THE US ON THE FINANCING OF PHASE III, BE INSTRUCTED TO FOLLOW AS CLOSELY AS POSSIBLE THE LENDING POSICIES OF THEIRHOST GOVERNMENTS IN SUPPORT OF THEIR INDUSTRIES IN THIS AREA.
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